

Message Text

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LIMDIS GREENBACK

PASS FRB FOR SOLOMON

TREASURY FOR ASSISTANT SECRETARY COOPER

E.O. 11652: GDS

TAGS: EFIN, G-10, OECD, BE

SUBJECT: DRAFT REPORT FOR THE DEPUTIES PREPARED BY THE TECH-
NICAL COMMITTEE OF THE G-10 DEPUTIES RELATING TO
RECYCLING -- BELGIAN QUESTIONS AND PROBLEMS

REF: WIDMAN/HEIMANN TELCON, JANUARY 2, 1975

1. SUMMARY. THE BELGIAN MEMBER OF THE G-10 DEPUTIES' TECHNICAL
COMMITTEE RELATING TO RECYCLING PETRO-DOLLARS (VANDEN BRANDEN)
OUTLINED TO EMBOFF JANUARY 3, TWO BELGIAN SUGGESTIONS ON HOW
TO OVERCOME TWO WEAKNESSES WHICH THE BELGIAN GOVERNMENT/
CENTRAL BANK BELIEVES IT HAS FOUND IN THE DRAFT REPORT
WRITTEN BY VAN YPERSELE ET. AL. (BRUSSELS 10233). ONE
BELGIAN PROBLEM RELATES TO UTILIZING SDR'S AS ITS
CONTRIBUTION TO THE SAFETY-NET SCHEME (IN LIEU OF DOLLARS).
THE SECOND BELGIAN PROBLEM (WHICH HAS TWO ALTERNATIVE PROPOSED
SOLUTIONS) RELATES TO INSURING LIQUIDITY WITHIN THE
SCHEME IN THE ADMITTEDLY UNLIKELY EVENT THAT ALL THE
CRIDIT IN THE SCHEME IS USED UP AND THEN ONE OF THE
CREDITORS FACES A VERY SERIOUS, SUDDEN AND UNEXPECTED
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BOP DEFICIT. VANDEN BRANDEN HOPES TO DISCUSS THESE

PROPOSALS WITH USG OFFICIALS JANUARY 9 IN WASHINGTON.
END SUMMARY.

2. ACCORDING TO VANDEN BRANDEN, BELGIAN MEMBER OF THE G-10 DEPUTIES' TECHNICAL COMMITTEE RELATING TO RECYCLING, BELGIUM SUPPORTS THE US PROPOSAL THAT THE PROPOSED SAFETY-NET SCHEME BE BASED ON DIRECT CONTRIBUTIONS (I.E. SCHEME A OR SCHEME A PLUS C). IN MAKING ITS CONTRIBUTION, HOWEVER, BELGIUM WOULD LIKE TO HAVE THE OPTION RPT OPTION TO USE ITS SDR'S IN LIEU OF DOLLARS.

3. ALTHOUGH THIS IS NOT YET ALLOWED UNDER IMF RULES, VANDEN BRANDEN BELIEVES THE PROVISIONS OF ARTICLE 25, SECTION 2, PARAGRAPH B, ITEM 1 OF THE IMF AGREEMENT COULD BE USED TO SOLVE THE PROBLEM. THE BELGIANS BELIEVE THAT IF THE US WAS PREPARED TO BUY IN ADVANCE FOR DOLLARS AN AMOUNT OF BELGIAN FRANCS EQUIVALENT TO THE SDR'S BELGIUM WISHES TO USE AS ITS CONTRIBUTION TO THE SAFETY NET SCHEME, THEN, USING THE PROVISION OF ARTICLE 25 LISTED ABOVE, BELGIUM COULD IMMEDIATELY BUY BACK THOSE BELGIAN FRANCS FROM THE US FOR SDR'S. THE NET EFFECT OF THIS PROCEDURE WOULD BE TO CONVERT BELGIUM'S SDR'S INTO DOLLARS.

4. DURING HIS DISCUSSIONS WITH US OFFICIALS IN WASHINGTON, JANUARY 9, VANDEN BRANDEN WILL WANT TO KNOW IF THE US IS WILLING TO AGREE IN ADVANCE TO THIS PROCEDURE S THAT BELGIUM CAN LATER OPT TO USE (IN EFFECT) ITS SDR'S AS ITS CONTRIBUTION TO THE SCHEME. (VANDEN BRANDEN NOTES THAT THE AMENDMENTS TO IMF RULES NOW AWAITING RATIFICATION WOULD PERMIT THE DIRECT PRUCHASE OF DOLLARS FOR SDR'S AND THEREFORE, IN A SENSE, THE BELGIAN PROPOSAL MERELY ANTICIPATES THOSE SOON-TO-BE-APPROVED NEW RULES.)

5. THE SECOND BELGIAN PROBLEM (FOR WHICH THE BELGIANS SUGGEST ALTERNATE SOLUTIONS) CONCERNS WHAT TO DO UNDER THE SAFETY-NET SCHEME IN THE ADMITTEDLY UNLIKELY EVENT THAT ALL OF THE CREDIT FACILITIES ARE USED UP
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AND ONE OF THE CREDITOR COUNTRIES UNEXPECTEDLY FACES BOP PROBLEMS EVEN MORE SERIOUS THAN THOSE OF ITS DEBTORS AND WOULD THEREFORE LIKE TO USE ITS "DRAWING RIGHTS" UNDER THE SCHEME.

6. THE FIRST BELGIAN PROPOSED SOLUTION TO THIS PROBLEM WOULD BE TO MODIFY THE PROPOSED SCHEME SO THAT UNDER THE CIRCUMSTANCES ABOVE, THE CREDITOR NATION WOULD

HAVE THE RIGHT RPT RIGHT TO DEMAND IMMEDIATE
REPAYMENT FROM ITS DEBTORS.

7. THE SECOND BELGIAN PROPOSED SOLUTION TO THIS
PROBLEMS IS FOR THE US (THROUGH THE FRB) TO AGREE THAT
IT WOULD ACCEPT BELGIUM'S "DRAWING RIGHTS" UNDER THE SAFETY
NET AS APPROPRIATE GROUNDS FOR EXPANDING THE
BELGIAN DEPT UNDER THE BELGIAN-US SWAP ARRANGEMENT.
THESE PARTICULAR FUNDS (DOLLARS) WOULD BE
"SWAPPED" FOR A PERIOD AND UNDER TERMS EQUAL TO THE
TERMS AND PERIOD PROVIDED IN THE SAFETY NET SCHEME.
IN VANDEN BRANDEN'S VIEW, AN EXCHANGE OF LETTERS
BETWEEN THE FRB AND THE BANQUE NATIONALE DE BELGIQUE
WOULD BE ALL THAT WAS REQUIRED TO SET UP THIS
SPECIAL SUPPLEMENT TO THE EXISTING SWAP ARRANGEMENT.

8. VANDEN BRANDEN WILL WISH TO EXPLORE SOLUTIONS TO
THE PROBLEM OUTLINED IN PARAGRAPH FIVE ABOVE WITH
USG OFFICIALS IN WASHINGTON JANUARY 9 AND WOULD
WELCOME ANY US PROPOSED SOLUTIONS DIFFERENT FROM THE
TWO IDEAS ABOVE (PARAGRAPHS 6 AND 7).FIRESTONE

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